

October 1, 2012

Natural Gas Trends**Highlights****A LARGER MARKET FOR NATURAL GAS?**

According to a study prepared for the American Gas Foundation titled *Natural Gas as a Transportation Fuel - Models for Developing Fueling Infrastructure* there is presently an increase in interest in the development of new natural gas markets as a result of recent large increases in the projected volume of economically viable domestic natural gas due to advances in shale gas extraction technologies. Natural gas supplies approximately a quarter of the primary energy used to power our economy, less than one percent of transportation energy is supplied by natural gas. The mainstreaming of natural gas vehicles (NGVs) offers the potential to help diversify the primary energy used in our transportation sector and to provide new markets for natural gas. As a result, many natural gas local distribution companies (LDCs) are currently assessing their approach to NGVs.

Fill 'Er Up

Chrysler plans to produce pickup trucks that run on compressed natural gas.



5.7-liter bi-fuel Hemi V8 engine starts using gasoline before switching over to CNG. The engine and fuel system automatically switch back to gasoline once the CNG tanks are empty.

Source: Chrysler (truck stats, photo)

The Wall Street Journal

Current models implemented by LDCs are divided into three primary categories:

- Rate-based Models - NGV activities that are allowed in their rate-base;
- Non-Rate-based Model - The cost of NGV development cannot be passed on to the LDC's customers. In some cases, the LDC may be able to collect their commission-fixed ROR from these projects when they yield a profit; and
- Commercial Model - This model is used by unregulated affiliates of LDCs. Decision to pursue a particular NGV project is based on commercial investment criteria.

Source: http://www.aga.org/Kc/analyses-and-statistics/studies/other_studies/Documents/AGF%20Transportation%20Study%20Sept%202012.pdf

Data

- November Natural Gas Futures Contract (as of Sep 28), NYMEX at Henry Hub closed at \$3.320 per million British thermal units (MMBtu)
- November Light, Sweet Crude Oil Futures Contract (as of Sep 28), NYMEX at Cushing closed at \$92.19 per U.S. oil barrel (Bbl.) or approximately \$14.68 per MMBtu

Last week: Texas, U.S. CDD lower than normal

For the week beginning 9/23/12 and ending 9/29/12, cooling degree days (CDD) were lower than normal for Texas and the U.S. For the cooling season (1/1/12 to 12/31/12), cumulative cooling degree days were 17% above normal for Texas and 23% above normal for the U.S.

Source: www.cpc.ncep.noaa.gov

COOLING DEGREE DAYS (CDD)

City or Region	Total CDD for week ending 9/29/2012	*Week CDD + / - from normal	Year-to-date total CDD	* YTD % +/- from normal
Amarillo	474	129	1754	53%
Austin	624	14	2488	10%
DFW	675	74	2661	29%
El Paso	611	128	2382	27%
Houston	662	99	2753	25%
SAT	698	97	2796	21%
Texas**	89	22	2837	17%
U.S.**	28	3	1406	23%

* A minus (-) value is cooler than normal; a plus (+) value is warmer than normal.

NOAA uses 65° Fahrenheit as the 'normal' basis from which CDD are calculated.

** State and U.S. degree days are population-weighted by NOAA.

Last week: U.S. natural gas storage at 3,576 Bcf

For the week ending 9/21/12, U.S. working gas in storage rose from 3,496 to 3,576 Bcf, compared to 3,280 Bcf in storage a year ago and compared to an average of 3,294 Bcf in storage during the 5-year period from 2007 to 2011. Working gas in storage in the producing region (which includes Texas) increased from 1,124 to 1,153 Bcf.

Source: www.eia.doe.gov

Region	Week ending 9/21/12	Prior week	One-week change	Current Δ from 5-YR Average (%)
East	1,921	1,875	46	+ 4.1%
West	502	497	5	+ 10.6%
Producing	1,153	1,124	29	+ 16.0%
Lower 48 Total	3,576	3,496	80	+ 8.6%

Lower 48 states, underground storage, units in billion cubic feet (Bcf)

Last week: U.S. gas rig count down 19

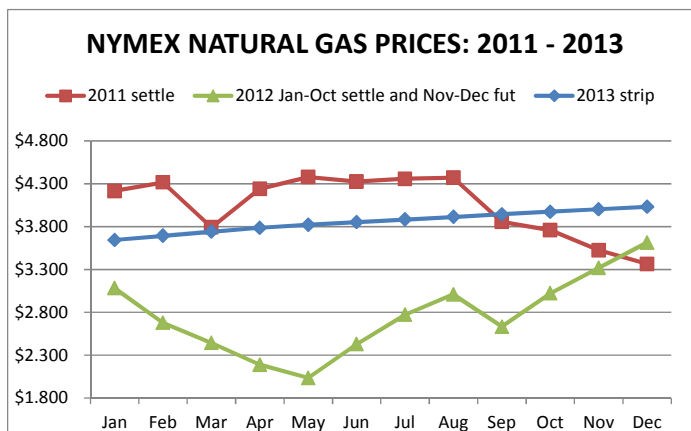
The gas rig count for the U.S. was down 19 when compared to the prior week and down 488 when compared to 12 months ago. The total rig count for the U.S. was down 11 for the week and down 142 when compared to 12 months ago. The total rig count includes both oil and natural gas rotary rigs.

Source: Baker Hughes

BAKER HUGHES ROTARY RIG COUNT				
	As of 9/28/2012	+/- prior week	Year ago	+/- year ago
Texas	878	1	904	-26
U.S. gas	435	-19	923	-488
U.S. oil	1410	8	1060	+350
U.S. total	1848	-11	1990	-142
Canada	359	-4	510	-151

Numbers are excerpted and not meant to be totaled

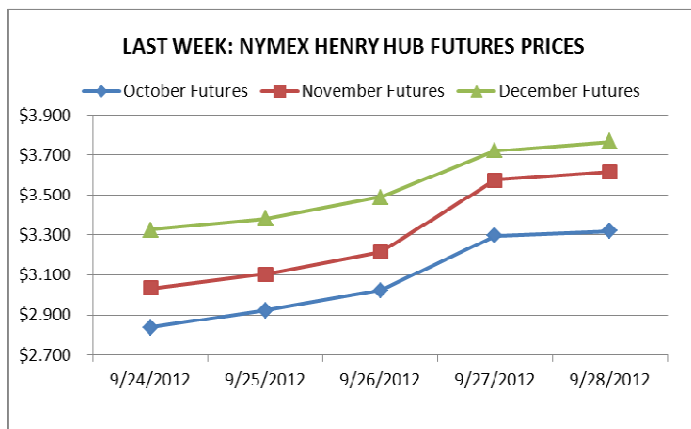
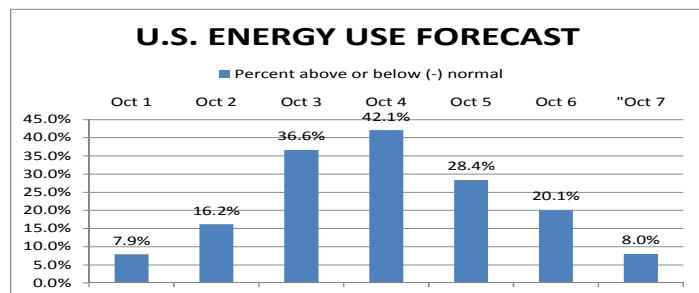
Strip prices. Natural gas strip prices for 2013, shown below in blue, are the average of daily settlement prices for the next twelve months of natural gas futures contracts.



This week: U.S. energy use predominately up

U.S. energy use is forecasted to be higher than normal through October 7. Noteworthy is data for October 3rd and 4th with exceptional usage forecasted. According to the Dominion Energy Index, as shown below. Dominion forecasts total U.S. residential energy usage, a component of which is natural gas.

Source: Dominion Energy Index



Last week: Basis ranged from -\$0.06 to -\$0.11 cents

Gas basis at key Texas hub markets is shown below and at right as the spot market cash price minus the Henry Hub spot price, as of last Friday.

Source: Platts Gas Daily

NATURAL GAS PRICE SUMMARY AS OF 9/28/2012

	This Week	+/- Last Week	+/- Last Year	12-Month Strip Avg.
US November futures				
NYMEX	\$3.320	\$0.435	-\$0.439	\$3.514

Source: Platts Daily

Gary M. Torrent Ph.D.
a natural gas analyst in the
Market Oversight Section
of the Gas Services Division,
is editor of *Natural Gas Trends*.
Comments on this publication
may be directed to Dr. Torrent at
512.463.7395
or gary.torrent@rrc.state.tx.us